

HOUSE BILL REPORT

HB 2682

As Passed House:
February 11, 2006

Title: An act relating to contribution rates in the Washington state patrol retirement system.

Brief Description: Setting contribution rates in the Washington state patrol retirement system.

Sponsors: By Representatives Conway, Fromhold, Lovick, Kenney, Quall, Simpson, Roberts, Ormsby and McCune; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/26/06, 1/30/06 [DP];
Transportation: 2/3/06, 2/6/06 [DP].

Floor Activity:

Passed House: 2/11/06, 96-0.

Brief Summary of Bill

- Reduces the employee contribution rate for members of the Washington State Patrol Retirement System (WSPRS) from one-half of the total required contribution rate to the lesser of one-third of the total rate or 7 percent of pay.
- Establishes minimum contribution rates beginning July 1, 2009. The rates adopted by the Pension Funding Council, subject to revision by the Legislature, may exceed but may not be less than 70 percent of normal cost under the entry age cost method.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 30 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Chandler, Clements, Conway, Darneille, Dunshee, Grant, Haigh, Hinkle, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McIntire, Miloscia, Pearson, Priest, Schual-Berke, P. Sullivan, Talcott and Walsh.

Staff: David Pringle (786-7310).

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: Do pass. Signed by 29 members: Representatives Murray, Chair; Wallace, Vice Chair; Woods, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Appleton, Buck, Campbell, Clibborn, Curtis, Dickerson, Ericksen, Flannigan, Hankins, Holmquist, Hudgins, Jarrett, Kilmer, Lovick, Morris, Nixon, Rodne, Schindler, Sells, Shabro, Simpson, B. Sullivan, Takko, Upthegrove and Wood.

Staff: Jerry Long (786-7306).

Background:

The Washington State Patrol Retirement System (WSPRS) covers all commissioned officers of the Washington State Patrol (WSP). The WSPRS was created in 1947, and until January 1, 2003, was the only state administered retirement system that still contained many of the plan provisions that were altered or eliminated for new members in the creation of plans 2 or 3 in other retirement systems.

Members of the WSPRS may retire at age 55 or after 25 years of service at any age. It is also the only plan operated by Washington with a mandatory retirement age, 60. The average retirement age in WSPRS is among the lowest of the state retirement systems, 51.5 years, in comparison with the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 at age 49.6, the LEOFF Plan 2 at age 56.2, and the Teachers' Retirement System Plan 1 at age 58.2.

In 2001, the Legislature adopted ESB 5143, following the study and recommendation of the bill by the Joint Committee on Pension Policy. The 2001 legislation contained the following changes to the WSPRS for members who joined the plan prior to January 1, 2003:

- The annual cost-of-living adjustment (COLA) benefits of retirees and survivors was increased from a 2 percent per year simple increase to a 3 percent per year compounded Consumer Price Index-based increase.
- The employee contribution rate was changed from a fixed 7 percent of pay to the greater of 2 percent or one-half of the total contribution rate required by the plan (with the state paying the other half).
- Voluntary overtime earned by members working for the Department of Transportation was excluded from the definition of salary.

Engrossed Senate Bill 5143 also made major changes to characteristics of the WSPRS for members who first joined after January 1, 2003. In total, they changed the benefits for new members from a plan more like the Plans 1 of the Washington State Retirement Systems to one more like the LEOFF Plan 2. Some of the changes included:

- changing the period used for calculating average final salary from two years to five years;
- excluding annual and holiday pay cash-outs from calculation of average final salary;
- changing military service credit provisions to permit only the purchase of up to five years of interruptive military service credit; and

- eliminating an automatic post-retirement death benefit and replacing it with an optional, actuarially-reduced survivor benefit like that offered in Plans 2 and 3 of the state retirement systems.

Currently, the WSPRS members and employers each pay a contribution rate of 4.51 percent. Under current law the actuary expects the member rate to rise to 6.54 percent on July 1, 2007, and to about 7.73 percent July 1, 2009.

Summary of Bill:

Beginning July 1, 2006, the contribution rates to the WSPRS are for members reduced from 4.51 percent of pay to 3.01 percent of pay, and for employers increased from 4.51 percent to 6.01 percent.

The member contribution rate for the WSPRS is reduced, beginning July 1, 2007, to the lesser of one-third of the total required contribution rate or 7 percent. The employer contribution rate is increased to two-thirds of the total required rate, unless the employee rate is 7 percent, in which case the employer rate will be the balance of the total required rate in excess of 7 percent.

Beginning July 1, 2009, a minimum total contribution rate to the WSPRS is established. The contribution rate adopted by the Pension Funding Council, subject to revision by the Legislature, may exceed but may not be lower than 70 percent of the normal cost, calculated using the entry age normal cost actuarial method.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For: (Appropriations) The Select Committee on Pension Policy considered this bill. The WSP does not pay into Social Security, and the state was making no contributions during the 2001-05 period. This bill has been thoroughly worked on, and it corrects a bad situation that started in 1999. For two years, the troopers contributed 7 percent of pay, then 3 percent and then 2 percent. This bill returns us to the old 7 percent cap. Historically, the employer rate fluctuated, but was similar to a one-third, two-thirds split over time. The minimum rates are also important, as the WSPRS is a small system and vulnerable to changes in rates and investment return. This will help us recruit and retain the best troopers possible. The troopers need to contribute, and the agency should too.

Testimony For: (Transportation) This bill takes the contribution split between the employer and member back to where they were prior to 2000. The pension fund returns were doing well, so the rates were changed in 2000 because the State Actuary forecasted that no changes would need to be made for 35 years, but four years later, the contribution rates for both the member and employer are going up. The 70 percent floor is very important since the plan is a very small plan, and this will keep the plan from having big swings in the contribution rates. The state does not pay Social Security on troopers, so the one-third and two-thirds split

matches the other plans since the state pays 6.2 percent Social Security on all other state employees. This is important for recruitment and retaining the troopers. The last academy class was not full.

Testimony Against: (Appropriations) None.

Testimony Against: (Transportation) None.

Persons Testifying: (Appropriations) Rick Jensen, Washington State Patrol Troopers' Association; Davor Gjurasic, Washington State Patrol Troopers' Association; and Steve Sutton, Washington State Patrol Lieutenants Association.

Persons Testifying: (Transportation) Representative Conway, prime sponsor; and Rick Jensen and Davor Gjurasic, Washington State Patrol Troopers Association.

Persons Signed In To Testify But Not Testifying: (Appropriations) None.

Persons Signed In To Testify But Not Testifying: (Transportation) None.